

D-4: Silver Dragon Water Supply Ltd Sustainable Finance Framework

Project	Silver Dragon Water Supply Ltd Sustainable Finance Framework
Document	D-4: Silver Dragon Water Supply Ltd Sustainable Finance Framework
Prepared for	Silver Dragon Water Supply Ltd, China Water Affairs Group, DEG
Prepared by	HPL.LLC
Date	March 2023

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Abbreviations

ADB	Asian Development Bank
CBI	Climate Bonds Initiative
CWA	China Water Affairs Group Limited
ESMS	Environmental and Social Risk Management System
GBP	Green Bond Principles
GLP	Green Loan Principles
HKSE	Hong Kong Stock Exchange
ICMA	International Capital Market Association
IFC	International Finance Corporation
LMA	Loan Market Association
MEE	Ministry of Ecology and Environment
SBG	Sustainability Bond Guidelines
SBP	Social Bond Principles
SLP	Social Loan Principles
SPO	Second Party Opinion

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1. Background

1.1 Overview of Silver Dragon Water Supply Ltd.

Silver Dragon Water Supply Group Limited (Bermuda) (“Silver Dragon”) was established in Bermuda in 2021 as a wholly owned subsidiary of China Water Affairs Group Limited (“CWA” or the “Group”). CWA is one of the largest publicly listed water utility companies in China, headquartered in Hong Kong, with operation management centers in Beijing and Shenzhen. Since 2003, the Group has been committed to investing, constructing, and operating water projects in mainland China, including raw water, tap water, direct drinking water, wastewater treatment, drainage operation, comprehensive water environmental renovation, and water-related construction.¹

Silver Dragon was established as a new entity to hold all domestic and overseas water supply and direct drinking water related companies of the Group. Silver Dragon is aiming to complete its spin-off from CWA in Financial Year 2023/2024. At which point, Silver Dragon will be 75% owned by CWA, and 25% by public stakeholders, and be listed in the Hong Kong Stock Exchange (HKSE). While the board will be managed independently, both companies carry the same core corporate policy and strategy aligned with the national mission of providing clean drinking water to the public in China in line with environmental and social obligations.

Silver Dragon’s business operations are wholly focused on water supply, specifically:

- **City water supply operation and construction**, which has over 7.4 million connected water meters and over 158,000 km of water pipelines spread out in various cities and regions across China, including in Hunan, Hubei, Henan, Hebei, Guangxi, Guizhou, Hainan, Jiangsu, Jiangxi, Guangdong, Chongqing, Shandong, Shanxi, and Heilongjiang.
- **Direct Drinking Water operation and construction**, which serves approximately 3 million users well spread in various cities and regions across China, including in Hunan, Hubei, Henan, Hebei, Guizhou, Jiangsu, Jiangxi, Shenzhen, Guangdong, Guangxi, Chongqing, Shandong, Shanxi, Anhui, Zhejiang, Yunnan, Sichuan, Ningxia, and Fujian; and

¹ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

- **Other Construction Services.**^{2,3}

As of March 2022, Silver Dragon has 217 water plants, with a total designed daily water supply capacity of 15.36 million m³.⁴ The majority of the water supply business is located in Tier 3 and Tier 4 cities, where local governments grant 30 - 50 years of exclusive and renewable concession rights (under the One City One Water Supply Operator Policy).⁵ Silver Dragon's water supply operations are conducted under a direct revenue model, collecting tariffs directly from end users.

Silver Dragon aims to enhance its service quality and provide urban and rural residents with better "last-meter drinking water solutions", striving to improve the quality of life in the regions where it operates.

1.2 The Water Supply Sector in China

China has experienced rapid urbanization in its recent history. In 1980, 19.39% of the Chinese population resided in an urban setting. By 2021, this number had risen to 64.7%.⁶ This rapid urbanization is expected to continue reaching 75-80% by 2035.⁷ This migration from the countryside to the city has placed massive pressure on already outdated urban-rural water supply systems as well as creating new supply and demand issues. This increase in demand has led to overuse of water aquifers across the country which in turn has led to a drop in national water quality.

While the country is yet to be considered 'water-scarce',⁸ its average per capita water resources at 2,239.8 m³/person are far less than the global median (3,776 m³/person). Additionally, the population and water resources are unevenly distributed. This can be seen more starkly in areas in North and Northwest China, where the water supply used to rely on groundwater, and with rapid urbanization had to find new sources of water from rivers and lakes.⁹

² CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

³ CWA (2022). *Annual Report*. Available [here](#).

⁴ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

⁵ CWA (2022). *Corporate Presentation*.

⁶ C. Textor (2021). *Urbanization in China 1980-2021*. Available [here](#)

⁷ South China Morning Post (2022). *China's urbanization push could be at a 'bottleneck', with slowest migration growth rate in quarter-century*. Available [here](#)

⁸ The United Nations defines water scarcity as an area having less than 1,000m³ of renewable freshwater per person. Less than 500m³ is defined as 'absolute water scarcity', *Water stress versus water scarcity*, United Nations, available [here](#).

⁹ Bei et al. (2019). *A Tale of Two Water Supplies in China: Finding Practical Solutions to Urban and Rural Water Supply Problems*. Available [here](#).

Another factor exacerbating the issues facing the water supply sector in China is the uneven distribution and poor quality of water resources across the country. According to the latest figures, more than 80% of China's water supply comes from surface water sources such as rivers and lakes. However, according to the Ministry of Ecology and Environment (MEE), 6.9% of surface water in China's river basins is "Below Grade V" quality, or, in other words, not suitable for any use whatsoever. An additional 18.9% is in the "Grade IV and V" category which suggests suitability for industrial and agricultural use only.¹⁰

Groundwater makes up the remainder of China's water supply and is sourced mainly from underground water aquifers. According to the MEE's latest statistics, 15.5% of the country's groundwater was considered unsuitable for any purpose ("Grade V") while 70.7% was only suitable for agricultural and industrial use (and for human consumption with proper treatment) ("Grade IV").¹¹

This over-demand, coupled with water quality levels, has created water shortages across the country especially in areas of northern China where the North China Aquifer has been seriously overexploited. That the region supplies an estimated 13% of China's overall agricultural production and 20% of its total annual crop production highlights the possible impact on other major sectors if action is not taken to alleviate the water supply problem.¹²

As a result, the Chinese government has sought to address the issues facing the water supply sector through major investment. It is hoped that ambitious water infrastructure projects such as those under the management of Silver Dragon will provide better quality water to those that need it and alleviate water scarcity and stress across the country.

1.3 Silver Dragon's Sustainability Strategy

It is important to note that while Silver Dragon, at the end of the spin-off, will have independent management, the policies will be the same as those of CWA (the "Group"). Aligned with the Group, Silver Dragon has adopted the value of "Water-oriented, Kindness to Society" as a core business philosophy within its management of water supply and direct drinking water projects.

¹⁰ Ministry of Ecology and Environment of the People's Republic of China (2020). *Report on the State of Ecology and Environment in China*. Available [here](#).

¹¹ Ibid.

¹² The Diplomat (2022). *How China is Responding to its Water Woes*. Available [here](#).

Within its **water supply business**, Silver Dragon is strongly focused on eliminating the gap between urban and rural water supply. Promoting urban-rural integration will enhance drinking water safety, improve productivity and living conditions in rural areas, and further facilitate the coordinated development of both urban and rural areas.¹³ This is in line with the country's "14th Five-Year Plan for National Water Security Assurance,"¹⁴ issued by the National Development and Reform Commission and the Ministry of Water Resources. This plan proposes urban pipelines to be extended to rural areas and gradually achieve urban-rural water supply integration.

Guided by this mission, Silver Dragon is focused on creating an urban and rural water supply system that meets the requirements of new social development. To achieve this, Silver Dragon is working on pipeline extension, pipeline connection, upgrading and commissioned operation, among others, to optimize the deployment of the urban and rural water supply, improve the operation and management system and upgrade rural water supply services. In this line, during the reporting period of 2021/2022, Silver Dragon connected 200,000 new households and 700,000 new users to the urban and rural water supply.¹⁵

Within its **direct drinking water business**, Silver Dragon is focused on meeting the people's demand for healthy and high-quality drinking water, as well as achieving high-standard urban development. One of the most critical ecological guidelines is to achieve "carbon neutrality" by reducing bottled water consumption and replacing it with piped drinking water.

Silver Dragon seeks to balance its strategy, re-positioning "pipeline drinking water business" as a priority axis at the same level as the "water supply business", with the mandate to provide a comfortable, affordable service that respects the environment. To reach this mission, only in 2021 Silver Dragon established more than 90 direct drinking water subsidiaries spread over 18 provinces. The Group invested in more than 1,100 new direct drinking water projects, totaling more than 2,000 projects in operation, serving a population of close to 3 million.¹⁶

Finally, Silver Dragon applies CWA's "Carbon Peaking Implementation Plan,"¹⁷ which seeks to: 1) Achieve carbon emission peaking by 2030, in line with national targets, and

¹³ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

¹⁴ The Diplomat (2022). *China's Five-Year National Water Security Plan*. Available [here](#); National Development and Reform Commission and Ministry of Water Resources (2022). *14th Five-Year Plan for National Water Security Assurance*. Available [here](#).

¹⁵ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

¹⁶ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

¹⁷ CWA (2022). *Carbon Peaking Implementation Plan*.

2) Achieve net-zero carbon emission by 2050, which means zero carbon emission at the corporate level. The plan will be implemented through a Green Operation's Plan that seeks to promote:

- **Clean Energy:** apply distributed photovoltaic power generation and other solar applications (such as solar central hot water systems) within water treatment facilities to reduce GHG emissions.
- **Energy Efficiency Improvements:** introduce smart control systems into the treatment facilities to control dosing and energy consumption.
- **Reduction in leakage rates:** introduce leak detection technologies and build new pipelines to improve leakage rate. During the reporting period of 2021/2022, CWA's water supply business had a leakage rate of 14.88% (industry average 23.22%). The goal is to achieve a ratio less than 10% for prefecture-level urban water supply companies and less than 12% for county-level urban water supply companies by 2035.¹⁸
- **Green Construction:** refers to construction activities that save resources to the greatest extent and reduce negative impacts on the environment through scientific management and technical guidance under the premise of ensuring basic requirements such as quality and safety, to achieve energy saving, land saving, and water saving, material saving and environmental protection.¹⁹

1.4 Objectives of Developing a Sustainable Finance Framework

Silver Dragon's Sustainable Finance Framework (the "Framework") has been developed to detail how the company intends to apply sustainable debt instruments to finance capital expenditures for projects with positive environmental and social impacts. This Framework is fully aligned with Silver Dragon's overall strategy to "establish a twin-driver business portfolio of "water supply + direct drinking water" and facilitate the improvement of the ecological environment and practice the cooperative development of society."²⁰

From the environmental point of view, the use of funds will be applied to projects related to **sustainable water management** and **renewable energy**. In line with Silver Dragon's Carbon Peaking and Implementation Goals, the company is seeking to finance highly

¹⁸ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

¹⁹ CWA (2020). *Green Operations Plan*.

²⁰ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

efficient water supply and pipeline distribution networks, as well as incorporate photovoltaic power generation to help achieve their net zero ambitions. Aligned with the Group, Silver Dragon is expected to continue investing in direct drinking water and water supply projects, expanding the network, and improving the performance and efficiency of existing plants.

From the social point of view, the use of funds will be applied to projects that are focused on providing **affordable basic infrastructure** to promote better access to high quality water at affordable rates to close urban-rural supply-demand gaps. This is in line with Silver Dragon's strategy to enhance its service quality and provide urban and rural residents with better "last-meter drinking water solutions", striving to improve the quality of life in the regions where it operates. Silver Dragon projects will make it possible to supply drinking water to populations with insufficient water supply, or where capacity is limited. In some areas, the water gap is increasing especially after the expansion of the development zone to the north, and the development of new plants is essential to guarantee access to quality water.

2. Silver Dragon’s Sustainable Finance Framework

Silver Dragon’s Framework presents the guiding principles to issue Green, Social, and/or Sustainability Bonds as well as Green, Social and/or Sustainability Loans. The Framework is aligned with the Green Bond Principles (GBP)²¹, the Social Bond Principles (SBP)²², and the Sustainability Bond Guidelines (SBG)²³ published by the International Capital Market Association (ICMA) in June 2021 (with June 2022 appendix); as well as the Green Loan Principles (GLP)²⁴ and the Social Loan Principles (SLP)²⁵ published by the Loan Market Association (LMA) in February 2023.

Under the Framework, Silver Dragon can issue the following instruments (herein referred to as “Sustainable Finance Instruments” or “Sustainable Finance Transactions”):

- **Green Bonds:** “any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the GBP.”²⁶
- **Social Bonds:** “any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or refinance in part or in full new and/or existing eligible Social Projects and which are aligned with the four core components of the SBP.”
- **Sustainability Bonds:** “are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or refinance a combination of both Green and Social Projects. Sustainability Bonds are aligned with the four core components of both the GBP and SBP with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects.”²⁷
- **Green Loans:** “any type of loan instrument made available exclusively to finance or refinance, in whole or in part, new and/or existing eligible Green Projects.”²⁸
- **Social Loans:** “any type of loan instrument made available exclusively to finance or refinance, in whole or in part, new and/or existing eligible Social Projects.”²⁹

²¹ ICMA (2021). *Green Bond Principles*. Available [here](#).

²² ICMA (2021). *Social Bond Principles*. Available [here](#).

²³ ICMA (2021). *Sustainability Bond Guidelines*. Available [here](#).

²⁴ LMA (2023). *Green Loan Principles*. Available [here](#).

²⁵ LMA (2023). *Social Loan Principles*. Available [here](#).

²⁶ ICMA (2021). *Social Bond Principles*. Available [here](#).

²⁷ ICMA (2021). *Sustainability Bond Guidelines*. Available [here](#).

²⁸ LMA (2023). *Green Loan Principles*. Available [here](#).

²⁹ LMA (2023). *Social Loan Principles*. Available [here](#).

- **Sustainability Loans:** any type of loan instrument made available exclusively to finance or refinance, in whole or in part, new and/or existing eligible Social and Green Projects.

Silver Dragon’s Sustainable Finance Framework includes the following four core components:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting.

It is Silver Dragon’s intention to follow market best practices as the standards develop over time, therefore Silver Dragon may update this Framework.

2.1 Use of Proceeds

The use of proceeds will be allocated to finance or refinance, in whole or in part, future and/or existing eligible Green or Social Project Expenditures (“Green Projects” or “Social Projects”) that meet one or more of the following categories of eligibility as recognized in the ICMA GBP and LMA GLP (sustainable water management and renewable energy), and ICMA SBP and LMA SLP (affordable basic infrastructure). All projects are financed within Silver Dragon’s areas of operation, which are in China.

Refinancing of Eligible Green or Social Projects will have a look-back period of no longer than 24 months from the time of issuance/borrowing. Silver Dragon is committed to fully allocate the net proceeds of each Sustainable Finance Transaction within 24 months of issuance/borrowing.

Silver Dragon will determine eligibility based on whether the funds are applied to projects or project components that are aligned with green or social eligibility criteria.

Regarding the green eligibility criteria, in addition to aligning to the ICMA and LMA Principles, Silver Dragon has aligned projects to the EU Taxonomy on Sustainable Finance Activities related to “water collection treatment and supply”, and the CBI Water Infrastructure Criteria for water supply projects.³⁰

Further details on the green and social eligibility criteria are presented in Table 1 and Table 2, respectively.

³⁰ See Technical Annex of the Taxonomy Report, p. 293 - 295. Available [here](#).

Table 1. Green Eligibility Categories






Category	Eligibility Criteria	SDG	SDG Target
Sustainable Water Management	<p>Expenditures in new or existing potable water systems that improve efficiency (e.g., network upgrades, reducing non-revenue water), quality, capacity and/or reduce energy consumption/water losses.</p> <p>To be eligible:</p> <ul style="list-style-type: none"> The front-to-end water supply system must have a high degree of energy efficiency characterized by an average energy consumption of the system (including abstraction, treatment, and distribution) of 0.5 kWh per cubic meter billed/unbilled authorized water supply or less. The projects must do no significant harm to other environmental objectives and meet minimum social safeguards. 	 	<p>6.1 (Achieve universal and equitable access to safe and affordable drinking water for all)</p> <p>6.3 (Improve water quality by reducing pollution)</p> <p>6.4 (Substantially increase water-use efficiency)</p> <p>9.1 (Develop quality, reliable, sustainable, and resilient infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all)</p>
Renewable Energy	<ul style="list-style-type: none"> Expenditures related to the construction, operation, and/or installation of solar photovoltaic plants (including roof-top solar) in, for example, water supply plants and/or administrative buildings. 		<p>7.2 (Increase substantially the share of renewable energy in the global energy mix)</p>

Table 2. Social Eligibility Categories

Category	Eligibility Criteria	SDG	SDG Target
Affordable Basic Infrastructure	<ul style="list-style-type: none"> Expenditures that improve access, reliability, and quality of water supply at affordable rates³¹ to populations living in rural areas to close the urban-rural supply-demand gap^{32,33}. 	 	<p>6.1 (Achieve universal and equitable access to safe and affordable drinking water for all)</p> <p>6.3 (Improve water quality by reducing pollution)</p> <p>9.1 (Develop quality, reliable, sustainable, and resilient infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all)</p>

2.1.1 Exclusion Criteria

Any projects that are identified as high risk (Category A) according to Silver Dragon’s Environmental and Social Risk Management System are excluded from financing through a Sustainable Finance Instrument (for more information on the ESMS, see section 2.2.1).

³¹ Water tariffs in China, when compared to those in other major economies, are very affordable. Chinese residents are expected to spend less than one percent of their disposable income on water, far less than the global average of around three to five percent. Additionally, during 2022, the “Measures for the Administration of Urban Water Supply Tariff”, a new policy promulgated by the National Development and Reform Commission, came into effect, under which more transparency and higher predictability will be expected in the process and cycle of water price adjustment. It will provide further policy assurances for the healthy development of the Company’s water supply business.

³² Urban-rural supply-demand gap: 98% of the population in urban regions have access to water in China, while in rural areas the percentage is 84%. In sanitation, the gap is somewhat greater, being 91% and 76% respectively. Data from UNICEF and WHO (2021). Available [here](#).

³³ The water supply plants that are financed under the Social Use of Proceeds Category must do no significant harm to environmental objectives, and therefore, must align with the high energy efficiency criterion (0.5 kWh per cubic meter billed/unbilled authorized water supply or less).

Additionally, the following sectors and activities will be excluded from financing through a Sustainable Finance Instrument. This exclusion list is aligned with the EDFI Exclusion List.³⁴

2.2 Process for Project Evaluation and Selection

The process for project evaluation and selection for any Sustainable Finance Instrument will be integrated in Silver Dragon's current project cycle.

Silver Dragon will create a checklist that will be included in all project feasibility reports, to help identify alignment with the Green and/or Social Eligibility Requirements of this Framework.

Silver Dragon will create a Sustainable Finance Working Group, whose function is to meet at least once every six months to discuss and select Eligible Green and Social Projects according to the eligibility criteria described in this Framework. Minutes of the meeting will be prepared to ensure the traceability of decisions taken on project evaluation, selection, and monitoring.

The Working Group will be composed of members from the Finance and Operations team (which includes experts in environmental and social risk management as well as plant operations). The group will have a final veto on whether a project can be considered an eligible Green or Social Project, and therefore eligible for inclusion in a Sustainable Finance Instrument.

The Working Group's decision will be based on whether the project:

1. Is in line with Silver Dragon's sustainability strategy,
2. Follows the eligible project category requirements defined in this Framework, and
3. Meets Environmental and Social Risk Policy requirements.

Additionally, the Sustainable Finance Working Group will be responsible for managing any future updates of the Framework.

In the case of any material change, issue, ESG controversy, or divestments with one of the Eligible Green or Social Projects included in a Sustainable Finance Instrument, funds will be reallocated to other Eligible Green or Social Projects in no longer than three months.

³⁴ Available [here](#), under EDFI Exclusion List (applicable to mutual financing activities).

2.2.1 Environmental and Social Review Procedures

The Environmental and Social Management System (ESMS) and the applicable requirements of the Group was approved by the Board of Directors in 2011, and it was most recently updated in September 2020. The ESMS is compliant with the IFC Performance Standards and was developed with the Asian Development Bank (ADB). Silver Dragon is currently applying CWA's ESMS. However, during 2023, Silver Dragon will adapt the current ESMS to have a standalone ESMS that will be aligned with the current document.

The objectives of the ESMS are:

1. To avoid, and when avoidance is not possible, to minimize and mitigate adverse impacts of investments on the environment and affected people; and
2. To maximize opportunities for environmental and social benefits.³⁵

The ESMS strictly follows relevant Environmental Protection Laws and “Environmental Impact Assessment Law of the People’s Republic of China” to conduct environmental impact assessments for new, renovated or expanded planning or construction projects and to engage qualified third parties to compile environmental impact assessment reports. Along with relevant regulations involving involuntary resettlement and protection of Indigenous Rights.³⁶

Silver Dragon's ESMS involves a due diligence process for each project. The first step for each project is to evaluate that it does not fall within any of the prohibited practices. Once the project approves this screening, the ESMS Manager will work on the project to assess potential environmental or social (like involuntary resettlement or effects on indigenous peoples) impact. Silver Dragon will identify potential direct, indirect, cumulative, and induced environmental impacts on and risks to physical, biological, socioeconomic, and physical cultural resources and determine their significance and scope, in consultation with stakeholders, including affected people and local community stakeholders.³⁷

The ESMS team will apply the environmental assessment checklist and social safeguard checklists for water supply. With this, the project will be classified between:

- Category A: with potential significant environmental and/or social impacts
- Category B: with less significant environmental and/or social impacts

³⁵ CWA (2020). *ESMS*.

³⁶ CWA (2022). *China Water Affairs Group Limited ESG Report*. Available [here](#).

³⁷ CWA (2020). *ESMS*.

- Category C: with minimal or no impacts.³⁸

If potentially adverse environmental impacts and risks are identified, Silver Dragon will undertake an environmental assessment as early as possible in the project cycle. For proposed subprojects with potentially significant adverse impacts that are diverse, irreversible, or unprecedented, the Silver Dragon will examine alternatives (location, design, technology, or either not investment).³⁹

Silver Dragon will prepare an environmental management plan that addresses the potential impacts and risks identified by the environmental assessment. If some residual impacts are likely to remain significant after mitigation, the plan will also include appropriate compensatory measures (offset) that aim to ensure that the project does not cause significant net degradation to the environment. For Category A and B projects that entail significant involuntary resettlement impacts, Silver Dragon will prepare a resettlement plan in accordance with national laws and ESMS.⁴⁰

2.3 Management of Proceeds

Silver Dragon intends to allocate, over time, an amount equal to the net proceeds to finance or refinance Eligible Green and Social Projects, selected in accordance with the eligibility criteria, and using the evaluation and selection process outlined in this Framework.

The net proceeds from each Sustainable Finance Transaction will be managed by Silver Dragon's Finance Team, and the proceeds will be deposited into the general account and be earmarked to finance new, or refinance existing, eligible Green and/or Social Projects as defined in this Framework. Silver Dragon commits to allocate funds within 24 months or less from issuance/borrowing.

Unallocated proceeds will be held in accordance with Silver Dragon's liquidity guidelines for short term time deposits or investments (liquid, highly rated, short-term securities, or investments) until they are allocated to Eligible Green and/or Social Projects. Silver Dragon commits not to invest unallocated proceeds in carbon intensive activities or any projects that conflict with the eligibility criteria under the Sustainable Finance Transaction. In the case that a project ceases to be eligible the net proceeds will be allocated to another eligible Green or Social Project within three months.

³⁸ CWA (2020). ESMS.

³⁹ CWA (2020). ESMS.

⁴⁰ CWA (2020). ESMS.

Silver Dragon's Finance Team will track the use of proceeds and periodically update the balance of funds assigned to eligible Green and/or Social Projects until full allocation.

2.4 Reporting

Silver Dragon will provide an Annual Sustainable Finance Report within the first 12 months of the instrument's issuance/borrowing, and every year until bond maturity/payback. In case of material developments, issues or ESG controversies, Silver Dragon will provide a report to investors on a timely basis.

The Finance Team will prepare the report, and the Sustainable Finance Working Group will provide the final approval of each report. In the case of a bond issuance, the report will be included within the annual ESG report and made available on Silver Dragon's website, in the case of a loan, the report will be provided to investors.

The report will include allocation and impact reporting, as described in the next sections.

2.4.1 Allocation Reporting

The allocation reporting section of the annual report will include the following:

- Details of each Sustainable Finance Transaction Outstanding,
- List of eligible Green and/or Social Projects financed or refinanced through the instrument, including a brief project description and amounts allocated,
- The percentage of financing versus refinancing of the proceeds,
- Proceeds allocated per eligible category, with information on types of temporary investments, and
- The remaining balance of unallocated proceeds at the end of the reporting period.

2.4.2 Impact Reporting

The impact reporting section of the report will provide a summary of the impacts of the eligible Green and/or Social Projects using quantitative indicators. These indicators were

selected based on ICMA’s Harmonized Framework for Impact Reporting for Green Bonds⁴¹ and Social Bonds⁴².

Silver Dragon commits to report at least one of the following green and/or social impact indicators associated with the eligible categories (see Table 3 and Table 4). The reporting methodology and assumptions used to report impact indicators will be disclosed in the annual report. Some case studies of specific projects may be included in this section to illustrate positive project outputs.

Table 3. Green Impact Indicators

Category	Environmental Impact Indicator
Sustainable Water Management	<ul style="list-style-type: none"> • Annual absolute (gross) water use before and after the project (m³/year), • Reduction in annual absolute gross water use before and after the project (m³ or %), • Annual volume of clean drinking water supplied for human consumption (m³/year), • Non-revenue water (water leakage rate, in %), • Average energy consumption of the system (kwh/m³).
Renewable Energy	<ul style="list-style-type: none"> • Greenhouse gas emissions reduction (t CO₂ eq/year), • Energy savings from Renewable Energy substitution for fossil fuel generated electricity (kWh/year), • Installed Renewable Energy Capacity (kW).

Table 4. Social Impact Indicators

Category	Social Impact Indicator
Affordable Basic Infrastructure	<ul style="list-style-type: none"> • Number of people with access to clean water (# in urban, # in rural), • Number of newly serviced population (#), • Annual volume of clean drinking water supplied (m³/year), • Water supply network penetration rate (% urban, % rural),

⁴¹ ICMA (2021). *Harmonized Framework for Impact Reporting*. Available Online: <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>

⁴² ICMA (2020). *Working Towards a Harmonized Framework for Impact Reporting for Social Bonds*. Available Online: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Harmonized-Framework-for-Impact-Reporting-for-Social-BondsJune-2020-090620.pdf>

Category	Social Impact Indicator
	<ul style="list-style-type: none"> • Tariff rate per usage type (yuan/ton), • Number of local employees hired for construction (#).

2.5 External Review

The Framework will undergo a Second Party Opinion (SPO) by an internationally recognized and accredited third-party external review provider to confirm its alignment with the ICMA’s GBP, SBP, and SBG and LMA’s GLP and SLP.

In addition, Silver Dragon will receive an independent external verification of the allocation and impact of the use of proceeds until full allocation and in case of material changes.